Summary

- The reputation of the pensions industry has suffered from the financial crisis and scandals such as the Equitable Life failure. The industry also faces the problems of an ageing population, low returns of investments and a 'live for today' mentality affecting society's attitudes to long-term saving.
- The success so far of auto-enrolment is helping present pensions in a positive light. But negative pensions headlines negatively impact upon the pensions industry's reputation.
- Young people do not have the same lack of trust in pensions as older generations, but instead do not prioritise pension saving over other financial concerns.
- Clear communications and embracing technology such as the pensions dashboard should help improve the reputation of the pensions industry, but new savings vehicles such as the LISA may affect pensions' popularity.

Time for a makeover

John Kenchington discusses the methods required to fix the pensions industry's image problem

The pensions industry has an image problem.

First and foremost it suffers from the difficult problem that many people – young adults in particular – simply don't want to think about old age.

The Pensions Policy Institute believes there is a 'live for today attitude' in the UK, and claims to have heard from some younger people that they actively try not to think about older age.

"Retirement is generally viewed as a bleak time when people will no longer be able to enjoy their income," it said in a briefing note in November.

But the horror show perception doesn't end there.

The industry's reputation was damaged by the financial crisis and controversial bailouts for financial services firms.

In addition, endless scandals including, notably, the Equitable Life failure, have dogged the pensions industry in recent decades and the awful consequences for British families have lingered in minds.

With UK savers facing a pensions savings crisis, amid low rates of return on investments and an ageing population, the time for the industry to address its image problem is overdue.

Auto-enrolment: The white knight?

As Pensions Minister from 2010 to 2015, Steve Webb oversaw the creation of auto-enrolment in the UK.

The scheme will ensure 10 million people are either newly saving into a pension or saving more by 2020, according to recent government estimates, with an additional £17 billion a year being saved by that point.

Now Royal London's director of policy, Webb says headlines about "pension scandals, pension rip-offs and pension crises" are at the heart of the problem.

"Large parts of the national media are simply not interested in good news stories, and as a result the public gets a very one-sided impression of the value and quality of pensions," he says.

Webb says auto-enrolment is an opportunity to revitalise the image of pensions and the scheme's reputation "has remained largely intact to date".

The evidence suggests he may be right.

An Office for National Statistics *Wealth and Assets Survey* released in March showed that, between 2014 and

2016, 40 per cent of people believed employer pension schemes were the safest way to save for retirement, compared to 35 per cent in 2010-2012.

Embracing technology

Webb says technology should also play a role in changing attitudes towards pensions.

"If millions of people start to build up meaningful pension pots, benefiting from a substantial contribution from their employer and from the taxpayer, and if they can access pension information in a clear way on their mobile devices and via a pensions dashboard, then there is a chance of a more positive narrative emerging," he says.

People will enjoy more positive experiences under freedom and choice than they did under compulsory annuitisation and this could also help turn around the negative-PR "supertanker" for pensions, Webb says.

Lack of trust in financial services

Pensions and Lifetime Savings Association (PLSA) deputy director Nigel People says auto-enrolment and other initiatives are working to change perceptions.

But he cites the Edelman Trust Barometer 2017, which found a trust level of 41 in UK financial services, below global average views of financial services at 52.

"It seems that the dot-com bubble, the sub-prime crisis and the resulting recession have impacted on the nation's psyche," he says.

People also cites dire headlines as a major factor in the industry's image issues.

"Regular national headlines focusing on the failure of the BHS scheme, the difficulties facing Tata and, more recently, the Bernard Matthews debacle has done nothing to improve the ordinary man on the street's view of the industry," he says.

"Pension schemes need to work to explain the benefits of workplace pension schemes in language and ways that are accessible to all ages while consumers need to fully understand what it means to be responsible for their own retirement funding."

A different approach for today's youth?

Former shadow Pensions Minister from 2011 – 2015 Gregg McClymont, now Aberdeen Asset Management's head of retirement savings, agrees that past scandals scarred the industry.

However, he says for younger generations with no memory of the past scandals their reluctance to save may be driven more by economic realities.

"I was struck in a recent focus group I ran with millennials at the PLSA annual conference by the extent to which they approached pensions free of legacy issues," he says.

"There was no mention of lack of trust in pensions. There was however confusion about the jargon in which pensions is wrapped, debts, whether student or otherwise, to be paid off and

Industry view: The ABI

The Association of British Insurers director of long-term savings and protection policy Yvonne Braun says the industry is making progress and the ABI is working on clearer language for pensions and improvements to transfers.

"The pension flexibilities, which were introduced two years ago, have brought savers and the pensions industry into much closer contact, and auto-enrolment has been very successful at bringing more people into pension saving. People need to trust they are in good hands if they are to be motivated into saving more and planning ahead for their retirement, and the people behind pension schemes of all types have a responsibility to help make this happen. We all need to be clearer about the advantages of a pension as a way to save, versus the raft of new ISA products the government has unveiled.

"The pensions world is embracing new technology. The project to build a pensions dashboard prototype, which the ABI has been managing on behalf of HM Treasury, has proved once and for all that people can be given access to all their pension savings online in a place of their choosing. There is now great drive within the industry to ensure the valuable work done so far results in a secure and well-regulated system the public can use by 2019."

first home deposits to be built up, as well as a wider feeling that while pensions were something important they were for thinking about in the future rather than in their present.

"Going forward, it is solving these issues – clarity, affordability, short time horizons – rather than mistrust – which will be decisive in shaping the future of pensions."

Government meddling

AJ Bell is part of a new breed of saving platforms offering online SIPP and ISA products to DIY investing clients.

Senior analyst at the firm, Tom Selby, says "constant government meddling with the rules" and "mounting complexity" have played a role in the sector's reputational woes.

He says the industry must show value for money to gain clients' confidence.

"Automatic enrolment and the pension freedoms provide a huge opportunity to turn the tide of public opinion," he says.

"Trust is hard won and easily lost, however, so the entire industry, government and regulators must continue the drive to lower costs, improve transparency and educate savers about the benefits of all forms of saving, including pensions."

Chase de Vere chartered financial planner Patrick Connolly adds that pensions are already seen in a more positive light than the crisis days of the past.

"Such has been the turnaround in the reputation of pensions that even the high-profile problems surrounding Sir Philip Green and the BHS Pension Scheme have done little to dent it," he says.

"There is also an increasing understanding, helped by the mainstream media, that we are living for longer and that the state pension isn't, on its own, going to be enough to provide a comfortable standard of living in retirement and so people have to take responsibility for themselves."

The new kid on the block

While the new world of pensions may be improving the industry's image, other government initiatives have threatened to invent an entirely new way for people to save for later life.

Launched on 6 April, the Lifetime ISA (LISA) scheme was quietly resisted by the pensions establishment.

But the government does not look likely to pull the plug any time soon. Current Pensions Minister Richard Harrington backs the scheme, despite concerns it may add complexity.

While only offered by few firms in its first year, the LISA has been picked up by challenger brands like Nutmeg in a sign the smart money believes the digital world has room for an ISA-type product for pension savings.

The message to the pensions industry therefore seems clear. Embrace technology, communicate better and champion auto-enrolment to avoid being outmoded by alternatives waiting in the wings.

Written by John Kenchington, a freelance journalist

Political view: Ros Altmann

The 'older workers' champion', former Pensions Minister and conservative peer in the House of Lords, Ros Altmann thinks the industry is turning around its poor reputation but more work is required.

"I believe that the pensions industry has had a bad reputation in recent years, following a number of high-profile scandals and reports of high fees, mis-selling and poor service. However, the image is definitely improving and the government and regulators have tightened up the rules so companies have to behave better. Fees are now capped, regulatory requirements for more transparency have increased and auto-enrolment is bringing millions more people into pension saving automatically.

"In addition, the freedom and choice reforms make pensions more user-friendly than ever before, the introduction of free guidance helps people even if they don't get individual advice and the pension product can work much better now that most people will not feel forced into buying annuities but can do what suits them best, at times more suitable to their needs. Young people are showing very low opt out rates, which is another sign of confidence in pensions, the opt out rates are far lower than anyone predicted.

"However, there are still dangers and poor practice among some of the legacy providers who still have high fees can continue to give the industry a bad name. More transparency is still needed, with full disclosure of charges and I wish the industry would engage with its customers belter – avoid using confusing jargon and help people understand how good pensions are. For example, expressing tax relief in terms of a government bonus, showing clearly that the employer has put money in for you on top of your own contributions, helping people understand how much extra they get from salary sacrifice – all these things seem buried away, rather than trumpeted up front.

"Pensions are under threat from policymakers who seem relaxed about turning them into ISAs, which will be far less generous than pensions for most people. They will lose out on employer contributions, lose any benefits from salary sacrifice, have more saved in cash rather than invested in long-term higher return assets and may also be spent too soon in order to ensure they stay tax free, rather than staying invested for the advanced old age they really need to cover.

"So I urge the pensions industry to promote the benefits of pensions more broadly, to talk about how good the reasons they will usually be better than ISAs for most people."